

AT&T NEWS

Annual Meeting Ends Era, Celebrates Bright Future

BY PAT RUSSO

THE 111TH ANNUAL MEETING was the last gathering of the old AT&T, the last time that shareowners would attend a meeting for a company whose business centered on both communications services and in pioneering the technologies that make those services possible.

The annual meeting had witnessed two world wars and the Great Depression, AT&T Chairman Bob Allen told more than 950 shareowners attending the April 17 meeting in Miami. Not even the breakup of the Bell System could compare to today's seismic changes, he said.

However, Allen quickly

"The new AT&T is focused on leading a market that will be unrecognizable from the market we lead today."

— Bob Allen

made it clear that harnessing the power of change also has become something of a tradition for AT&T. "When you're moving in the fast lane and the forces of

fundamental change come roaring up behind you, you have two choices," he said. "You can pull over to the side of the road and let history pass you by, or you can step on the gas and make history yourself. We've chosen the second option. I don't think you'd want it any other way."

Demonstrating the company's penchant for making history, Allen said that the recent initial public offering (IPO) for Lucent Technologies was the largest ever in the United States. The IPO delivered on a promise made to shareowners when AT&T announced its restructure into three separate companies. He said the company also had made considerable progress toward having all three companies ready for separate operation by the year's end. Allen praised the work of "people all over AT&T, [who] moved mountains to keep those promises."

Allen said the three companies had carefully charted their future courses.

"Each of these three new companies designed the business strategy and organization they felt they needed to be successful," he said. "Each had to be sized right to compete in hotly contested markets."

While the industry is chang-



ALEX GORI

At a reception for civic and business leaders the evening before the annual meeting, Bob Allen (right) greets Guarione Diaz, president and executive director of the Cuban American National Council. They're joined by George Foye, president, AT&T Caribbean and Latin America (second from left) and Amber Moss, former ambassador to Panama and University of Miami professor.

ing drastically, Allen said AT&T will continue providing high-quality service in local and long-distance calling, wired and wireless communications, as well as on-line services and home entertainment. "The new AT&T is focused on leading a market that will be unrecognizable from the market we lead today," he said.

"It's a market where we'll offer customers a complete menu of communications and information services, anytime, anywhere."

During the meeting, shareowners approved a directors' proposal allowing employees to purchase stock at a discounted price (see story, page 3). Three

shareowner proposals were defeated: publishing detailed newspaper statements of the company's political contributions; adopting a policy for dealings with China and the former Soviet Union; and discontinuing the long-term compensation component for executives who leave the company.

Prior to the annual meeting, AT&T announced a \$250,000 grant package for Florida education, which includes \$115,000 to fund a state education summit similar to the national education summit recently held in New York. The company will work with officials in Florida to produce the summit, which will be held later this year. ■

Bold Steps Highlight First Quarter

First-quarter milestones on the Target: Growth 2005 journey:

- Played a critical role in the passage of the Telecommunications Act of 1996, effectively sweeping away the Consent Decree that broke up the old Bell System.
- Kept our promise to file to be able to offer local service in all 50 states by March 1.
- Signed a marketing agreement with United States Satellite Broadcasting, and offered AT&T customers entertainment programming from DIRECTV®. In less than a month, handled 40,000 calls about direct broadcast TV.
- Changed the face of the Internet access industry with launch of AT&T WorldNet Service. In three weeks, AT&T put more customers on the Internet than MCI did in a year, taking more than 400,000 requests for software.
- Made AT&T Wireless Services the fastest-growing player in the fastest-growing segment of the communications business.
- Launched AT&T's first business services in the U.K., received a license to offer long-distance services in Mexico and began construction on India's largest cellular network.

NEWSBRIEFS

THE ALESTRA JOINT VENTURE formed by AT&T and the Mexican conglomerate Grupo Alfa has signed a Memorandum of Understanding with another company formed by GTE, the Mexican bank Bancomer and Telefónica International of Spain. The additional partners will allow Alestra to move more quickly to deliver AT&T-branded global communications services to Mexico's business and residential customers.

AT&T WON A \$20 MILLION CONTRACT to design, engineer and install an undersea fiber-optic telecommunications system between Florida and the Bahamas. The 470-kilometer-long cable will consist of six fiber pairs that will provide capacity equal to 320,000 simultaneous two-way telephone conversations.

AT&T Profits Climb; New Format Unveiled

BY PAT RUSSO

AT&T REPORTED GROWTH in first-quarter profits and revenue, and presented shareowners and analysts with their first look at a new financial reporting structure that simplifies comparisons against other communications services providers.

Excluding results from Lucent Technologies, AT&T Capital Corp. and NCR, first-quarter net income rose to \$1.44 billion, an increase of 14 percent over comparable numbers for the first quarter 1995. Earnings per share grew more than 12 percent to 90 cents. Revenue

reached \$12.96 billion, a 4.6 percent increase over the same period a year ago, spurred by solid increases in wireline and wireless services.

"I'm proud of our accomplishments this quarter," said AT&T Chairman Bob Allen. "In addition to the solid performance displayed by the new AT&T across some key measures, the speed and focus of so many to restructure, create and launch three new companies has been nothing short of remarkable."

AT&T was required to reformat its results to reflect the See EARNINGS, page 3

BEYOND FINANCIALS

NETWORK VOLUMES were up 7.7 percent over the first quarter of 1995. This was at the low end of our recent range, and less than the growth rate of our major competitors.

CUSTOMER VALUE ADDED continued above target at 103. This means that our customers' satisfaction with the value they receive from AT&T is higher than the satisfaction of our competitors' customers.

Shifting Markets Heighten Focus On Customers

BY ED LOPEZ

MORE THAN EVER BEFORE, AT&T needs to provide high levels of customer service with an even sharper focus.

What's driving that need? Changes in technology, new competitive markets where AT&T may not be the leader, a "one-stop-shopping" approach to communications services and higher customer expectations.

The Telecommunications Act of 1996 opened up the communications market to broader and more intense competition, creating the framework for dissolving artificial subindustries such as cable, local and long distance.

To better equip itself for the battles in new markets and increased competition, AT&T created the Operations and Services Management (OSM) Division headed by Executive Vice President Ron Ponder.

The mission of OSM is to deploy the appropriate technology and systems in a coordinated way across AT&T with a bias toward integration, minimizing duplicate spending and cutting costs.

Operating principles include

centers of excellence, customer segmentation and product simplification.

OSM's mission and creation are part of the overall implementation of Target: Growth 2005, a strategic plan to provide a foundation for AT&T as it enters an era of new and heightened competition.



"As market forces have been unleashed, customers are focusing on end-to-end service," said Alan Jones, who's vice president and general manager in the OSM division responsible for operations and technology for the consumer and small business markets.

In this highly competitive landscape, AT&T must be able to meet customer needs with all the elements in its marketing arsenal, be it local, long-distance, wireless, on-line, satellite TV

or credit-card services.

This turbulent, yet opportunity-laden business climate demands that employees adopt a broader concept of customer service, said Rod Mack, Jones' counterpart in business markets.

In Mack's view, customer service isn't an isolated event, but rather a continuous feedback loop of information that can be used to improve business operations.

"Customer service is not only the total experience that a customer has with AT&T, but also using that experience to pinpoint the underlying problems that need to be fixed," Mack said.

With the creation of the OSM division, for the first time bundled offers will be supported with common systems and technology that handle billing, the delivery of service to the customer, and matching customer needs with products.

It also means targeting customers for bundled offers and operating an efficient, reliable Worldwide Intelligent Network.

The intent is to help AT&T improve customer service, enrich the jobs of customer-service employees, and achieve the low-

est operating costs in the industry.

"By linking up the technical people and the operations people in teams, it will keep the focus on what's best for customers," Jones said.

As companies scramble for customers in the new bubbling cauldron of competition, excellent customer service will help AT&T stand out in the crowd.

As the communications marketplace evolves, three major shifts are apparent:

- From stand-alone products to bundling;
- From a viewpoint of a "general" or universal customer to segmentation of the market;

**"It's like changing
the tires on a car
going 60 miles
per hour."**

— Rod Mack

- From a product focus to a market focus.

Yet the concept of end-to-end service goes beyond offering customers a portfolio of services.

It also includes billing all services based on customer preference, be it a combined or separate bill, paper or electronic, detailed or as a lump sum.

Good customer service also means providing the level of care

a customer wants. Some customers want more, others less. And some prefer a language other than English.

The goal is to give customer representatives more decision-making authority and the technologies to allow easier access to information so they can respond to customers more quickly. Employees must be able to access a database and see the big picture of a customer's relationship with AT&T, consistent with applicable laws and regulations.

As communications services become more complex, customers want providers not only to meet current business needs, but also to anticipate future needs.

To Mack, the challenge is to implement all the systems and processes to achieve customer-care targets while retaining the ability to penetrate markets quickly.

"It's like changing the tires on a car going 60 miles per hour," Mack said. "It will require a cultural shift, a platform shift — just about every type of shift that you can imagine."

In continuously fine-tuning customer segments to achieve improved customer service, AT&T will build on technical and marketing skills it has honed over the years.

"When I joined the company, we were in the major leagues of database marketing," Jones said. "But now we really have to get into the World Series."

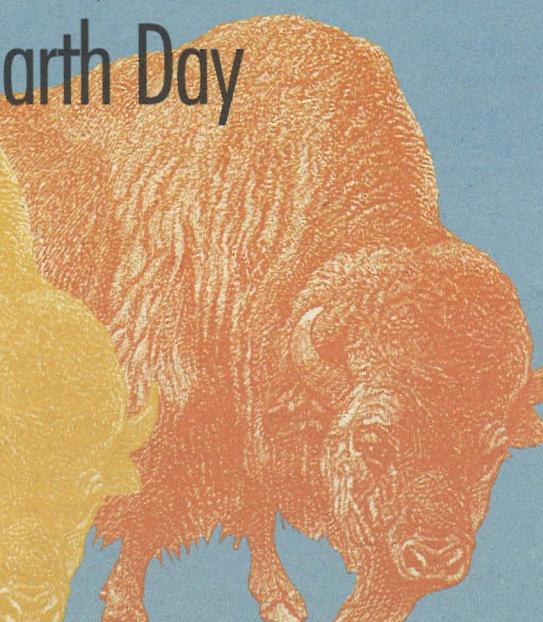
Editor's note: Future stories in this series will feature people on the front lines. ■

Adopt a Bison for Earth Day

TO CELEBRATE EARTH DAY 1996, AT&T and Lucent Technologies employees can adopt an acre, rescue a reef, or adopt a bison by donating \$25 or more to The Nature Conservancy, and the AT&T Foundation will provide a dollar-for-dollar match. The Nature Conservancy, a nonprofit organization, protects the natural habitats of endangered species.

All active employees in the United States, Puerto Rico and the U.S. Virgin Islands can participate in the matching grant program from April 22 through June 24, 1996. The AT&T Foundation will match a maximum of \$10,000 per individual donor up to a total of \$100,000 for the entire program.

To have a donation matched, write a check for \$25 or more to The Nature Conservancy, its chapters or any of its five special projects: Adopt an Acre, Rescue a Reef, Adopt a Bison, Conservation Science Program and the Ecosystem Research Program. Write AT&T on the memo line of the check. Mail your contribution to: The Nature Conservancy



Headquarters Office, 1815 North Lynn St., Arlington, VA, 22209, Attention: Maria Fisher, Donor Support - A.

Then call the AT&T Foundation at 212-841-4736 to register your gift. All gifts must be registered by June 28.

Looking for Champions Of the Environment

AT&T is kicking off Earth Day 1996 with its second annual employee recognition program, AT&T Champions of the Environment. Sponsored by the AT&T Environment, Health and Safety Process, the Champions program recognizes employees of the new AT&T who have made noteworthy environmental contributions in their workplace or community during the past five years.

Employees chosen for their contributions also will have the opportunity to donate \$1,000 to the nonprofit environmental group of their choice. To obtain an application, e-mail a request to atmail!attpioneer or call 201-256-1918. Deadline for entries is June 1.



Alan Jones, left, and Rod Mack, are at the forefront of initiatives to prepare AT&T for a new era of competition.

FELIX BRYANT/AT&T MEDIA SERVICES

Earnings

continued from page 1

planned spin-off or sale of Lucent Technologies, AT&T Capital Corp. and NCR, which are reported as "discontinued operations." The ongoing AT&T results are reported as "continuing operations," with 1995 results restated to conform to the new reporting format.

"We're continuing to perform well as we transform the company."

— Bob Allen

Wireless services revenues climbed to \$794 million, a 22 percent increase, which includes cellular voice and data, messaging and air-to-ground services. The number of cellular service subscribers jumped 32 percent over last year to 5.86 million.

Analysts Appraise First-Quarter Results

AT&T'S FIRST-QUARTER RESULTS CAUSED MOST securities analysts to reiterate 'buy' recommendations for the company's stock.

Reaction to per-share earnings was generally positive. "Better than expected," and, "A good start to the year," said Richard Klugman of PaineWebber and Frank Gornall at CS First Boston, respectively.

There was some concern over the volume growth of 7.7 percent, which Dan Reingold of Merrill Lynch said was "well below industry average growth [which is] in excess of 10 percent."

"We are not alarmed," countered Gornall. "The business market segment remained strong and 800 service continued to grow revenues in the 12 percent range."

NCR's progress also pleased analysts. The improvement at NCR, said Grubman, is "an indication that management there is aggressively pursuing its restructuring."

Lucent Reports Revenue Growth

LUCENT TECHNOLOGIES Inc. reported a 10.1 percent increase in first-quarter revenue and, as expected, a quarterly loss of \$103 million, or 16 cents a share. The net loss was at the low end of the \$100 million-to-\$140 million range predicted in the company's prospectus for its initial public offering of stock.

"We're delighted to be able to report, in our first quarter as a separate company, double-digit revenue growth," said Lucent Technologies Chairman and CEO Henry B. Schacht.

The revenue increase — to \$4.58 billion, compared with \$4.16 billion in the first quarter of 1995 — was due to strong sales in systems for network operators and sales of microelectronics products.

The net loss of \$103 million, or 16 cents a share, compared with a loss of \$22 million, or 3 cents a share, in the first quarter of 1995. The company calculated both its per-share earnings and losses as though its stock had been issued for the first quarter of 1995. Lucent attributed approximately half of the \$81-million difference between the quarters to start-up costs and expenses associated with the launch of a new company.

Revenues from systems for network operators increased by 16.9 percent over the same quarter last year to \$2.38 billion. Domestic sales increased by approximately 12 percent; international sales, including exports, increased by 34 percent.

Revenues from business

communications systems were \$1.15 billion, an increase of 1.6 percent compared with the first quarter of 1995. Overall revenues were up slightly in the United States; international revenues were up by 7 percent.

Microelectronics revenues were \$520 million, up by 25.6 percent over the first quarter of 1995. Microelectronics turned in a strong quarter, driven by increased sales in application-specific customized chips and digital signal processors. International revenues were up by 49 percent.

"We're delighted to be able to report... double-digit revenue growth."

— Henry B. Schacht

Revenues from consumer products were \$295 million, a decrease of 16.7 percent compared with the first quarter of 1995. During the quarter, the company announced it would close its 338 Phone Center Stores and continue to distribute products through resellers. These closings contributed in part to the decrease in revenues.

AT&T expects to spin off its remaining interest in Lucent Technologies to AT&T shareholders before the end of 1996. ■

gram to securitize its receivables, but also because of slower consumer spending and heightened competition.

While AT&T quarterly revenue increased 4.6 percent, operating expenses only increased by 2.7 percent, reflect-

ing reduced access and interconnection costs. Operating margins reached 18.3 percent, an improvement over last year's 16.8 percent.

Commenting on the results achieved amid tremendous changes in the company and the industry, Allen said the results were "a sign that we're continuing to perform well as we transform the company." He told shareholders that the first quarter of 1996 is just the beginning. "The new AT&T will emerge from the restructuring as a \$50 billion-a-year company. We intend to make it a \$100 billion company over the next 10 years."

Editor's Note — The financial results of NCR, Lucent Technologies and AT&T Capital Corp. are being reported as if they were separate companies. The sum of these results does not equal the "loss from discontinued operations," due to the effect of internal sales among the companies, the different costs of debt and the different tax rates in use by the companies. ■

NCR Demonstrates Turnaround Progress

NCR SHOWED PROGRESS IN its restructuring with a lower operating loss compared to the first quarter of 1995. NCR's revenue was \$1.59 billion, a decline of 13 percent. Revenue included sales to AT&T, Lucent Technologies and AT&T Capital.

The lower revenue reflects the company's exit from the personal computer manufacturing business, as well as the sale of its microelectronics division. When the effects of these operations are excluded, revenue for the quarter increased by 3 percent over 1995.

At the annual meeting, Bob Allen said of NCR: "They've

resized themselves to be competitive, reduced expenses and refocused on the computer industry, where they can make the biggest difference."

Improvements in margins and expenses contributed to NCR's progress. As a result, NCR reported an operating loss of \$37 million compared to \$172 million in the year-ago period.

"This is a big, big turnaround," said securities analyst Simon Flannery of J.P. Morgan.

During an employee broadcast NCR Chairman and CEO Lars Nyberg said, "We have momentum going in our organizations, which is being noticed by customers. We have an improved first quarter but the second one is even more challenging. I know that we're on the right track and that we'll make it." ■

New Stock Purchase Plan Approved

AT&T SHAREOWNERS APPROVED A PROPOSAL TO PERMIT employees to purchase AT&T stock at discounted prices through payroll deductions, beginning July 1.

To be eligible, employees must be employed by AT&T for at least six months and work 20 or more hours a week. Eligible employees can purchase common stock at a price equal to 85 percent of the average of the reported high and low price of the stock on the New York Stock Exchange on the date of exercise, which will be the last day of trading each month.

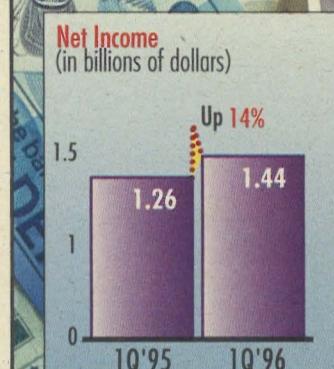
Payment for the shares will be made by authorized payroll deductions unless restricted by law. Participating employees will designate a whole percentage from 1 to 10 of their eligible compensation to be deposited into a periodic account. On each exercise date, the employee's entire account is used to purchase whole or fractional shares of common stock, which will be credited to his or her account. Participants will receive whole shares and cash for any fractional shares when they request them.

In the United States, the discount is taxable at the time shares are sold. Outside the U.S., local laws apply. There is no required holding period. Details on the plan will be provided soon. ■

First Quarter Financial Results

AT&T Continuing Operations*

AT&T will emerge from restructuring as a \$50 billion-a-year company. The goal is to make it a \$100 billion company by 2005.



* These results exclude operations the company intends to sell or spin off. 1995 results have been restated to conform to the new reporting format.

AT&T Capital Corp. Continues Growth

AT&T CAPITAL CORPORATION reported first-quarter 1996 net income of \$37 million, a 48 percent increase from the \$25.1 million reported for the first quarter of 1995. Earnings per share were 78 cents for the first quarter of 1996, versus 53 cents a year ago. Revenues were \$439 million, up 21 percent from the \$363 million of first quarter 1995.

AT&T Capital's strong earnings growth can be attributed primarily to higher levels of earning assets, which produced revenue growth that outpaced expenses, as well as gains on securitized assets.

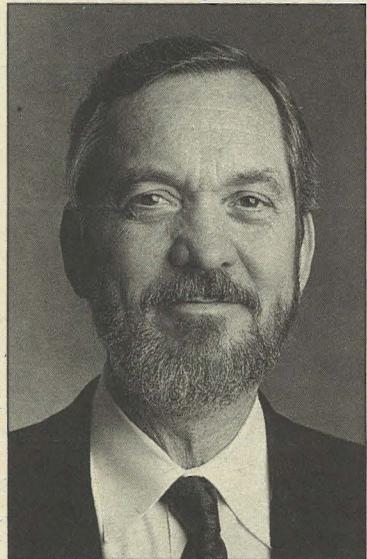
Equipment and loans financed reached a record \$1.1 billion for the first quarter, up 20 percent over the same period a year ago. ■

AT&T Selects Apple Executive To Lead Labs

BY ANNE WAINSCOTT

DAVID NAGEL WILL BECOME the first president of AT&T Laboratories, the research and development (R&D) arm of the new AT&T, on May 6. The 50-year-old scientist has been senior vice president, R&D, at Apple Computer since 1988.

"Dr. Nagel is a world-class talent in the development of easy-to-use, 'people-centered' technologies," AT&T Chairman Bob Allen said in announcing



David Nagel

the appointment. "By training and experience, he is the ideal leader for the people of AT&T Labs."

Nagel led the team at Apple that developed the Power Macintosh™ line of personal computers. "He has spent his entire career making technology simpler," said John Petrillo, senior vice president, Strategy and Service Innovation. "The Macintosh set all the standards for ease-of-use computing. And, David brings to our effort deep

roots in Silicon Valley."

Before joining the world's third-largest computer company, Nagel was chief of human factors research at NASA's Ames Research Center. He holds a doctorate in perception and mathematical psychology from the University of California at Los Angeles.

As AT&T Labs president, Nagel will be responsible for the company's worldwide research agenda, related applications development, new product prototyping and market development, and technical collaboration with other companies and institutions. He also will oversee the creation, development and management of the next generation of advanced services and electronic commerce solutions through his support of the EasyCommerce Services and Affiliate Networks organizations.

Nagel said his top priorities are to get to know Labs people, learn more about AT&T's strategic direction and drive the Laboratories' contribution to achieve that strategy.

"It's very important to have a vision and a strong sense of shared goals in an organization," he said. "The trick is to get those described at the right level so they are liberating and not stifling."

AT&T Labs' 1,900 technical staff members are based in New Jersey, California and other states with some located in Europe and Asia. Nagel will divide his time between these various locations, and will have offices in Silicon Valley and in the Labs' yet-to-be-named headquarters location in New Jersey.

Editor's note: Watch for more on Dr. Nagel and AT&T Labs in the next issue. ■

EDITOR'S NOTE

Good-bye News; Farewell Friends

This is the last issue of AT&T News. Starting in May, Lucent employees will receive a new Lucent corporate publication. NCR associates will continue to receive the weekly newsletter *Insight*. And AT&T people will receive a redesigned, renamed publication continuing in the AT&T News tradition.

All people can look forward to a special commemorative publication that will deliver a fond farewell to the company we have known. It will celebrate our common heritage and look ahead to the vast challenges and opportunities the new companies face.

We wish our Lucent Technologies and NCR colleagues all the best as they follow different courses in the exciting, though turbulent, global information industry.

Bon voyage!

BULLETIN BOARD

NEW CONTACT NUMBERS — Because of the restructuring, the AT&T Health Affairs Organization has reorganized, resulting in changes in contact numbers as listed below:

Eastern Region:

Employee Assistance Program
Alan Youngblood
908-204-1042

Health Promotion

Veronica Gilligan
908-204-1031

Occupational Health

Lisa Haley
908-221-2423

Southern Region:

Employee Assistance Program

Jim Bergstedt
404-810-8766

Health Promotion

Roger Moffat
404-810-8816

Occupational Health

Helen Shoemaker
404-810-8772

Central/West Region:

Employee Assistance Program
Ellen Fogarty
415-422-2501

Health Promotion

Cathy Higginson
312-230-2358

Occupational Health

Mary Amann
312-230-2531

Look for more information on what's new in AT&T's Health Affairs Organization in the next issue.

POS PLANS UNCHANGED — The April 1 merger of Aetna and U.S. Healthcare has no impact on employees who participate in the point-of-service program administered by either of these companies. Benefits, ID cards, provider directories and procedures for accessing network care remain the same. For answers to questions, employees can call the Member Services HelpLine indicated on their ID cards.

LUCENT CUSTOMER RESPONSE — Lucent Technologies has established an Executive Response Center (ERC) similar to the one at AT&T for handling escalated customer complaints and concerns. Employees and referred customers can reach the ERC at 908-508-8080 between 8 a.m. and 5 p.m. There's also a new Customer Inquiry Center (CIC), which supports all general calls to the main number for Lucent headquarters located at 600 Mountain Ave., Murray Hill, NJ 07974. The CIC number is 908-582-8500.

AT&T Inks Agreements To Offer Local Service

BY PAUL BUSCH

WHEN THE TELECOMMUNICATIONS Act was signed into law in February, AT&T pledged to use a variety of means to enter new markets, indicating that one of those would be through linkages with alternative-access providers.

The company underscored that strategy earlier this month by announcing agreements with five alternative-access providers in key areas. They are: American Communications Services Inc., Annapolis, Md.; Brooks Fiber Properties, St. Louis; Hyperion Telecommunications, Coudersport, Pa.; IntelCom Group, Denver; and Time Warner Communications, Denver.

With these agreements, AT&T will be able to connect business customers in 70 cities with the AT&T network as an alternative to access provided by local phone companies.

AT&T Chairman Bob Allen said the agreements give the "new" AT&T the flexibility to provide high-quality service at competitive prices. "These agreements demonstrate that AT&T will not limit itself to reselling local service obtained from monopoly phone companies," he said.

Nevertheless, AT&T continues to negotiate for fair and reasonable terms to connect with the networks of the seven regional Bell companies and GTE. Those terms include cost-based wholesale rates that would allow AT&T to sell local service at competitive retail prices.

AT&T plans to offer local phone service throughout the country beginning as early as this summer. ■



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